

**DSSA**

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July 8, 1999

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

VIA FEDERAL EXPRESS

Ms. Magalie Roman Salas  
Office of the Secretary  
Federal Communications Commission  
445 Twelfth St., SW Rm. TW-A 325  
Washington, DC 20554

**RE: SBC Communications Inc., and Ameritech Corporation  
(CC DKT No.98-141) (ICC 98-0555)**

Dear Ms. Salas:

In accordance with the Ex-parte Submission, I am forwarding a copy of my Direct Testimony On Reopening and Exhibits in Support of Direct Testimony On Reopening, on behalf of DSSA and the Neighborhood Learning Networks.

I appreciate your time and interest. If I can clarify my position or be of help in this matter, please feel free to contact me.

Sincerely,



Don S. Samuelson

DSS/sc

Enc.

cc: Thomas Krattenmaker  
Robert Atkinson  
Bill Dever

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STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

ICC Docket No. 98-0555

SBC Communications, Inc., SBC )  
Delaware Inc., Ameritech )  
Corporation, Illinois Bell )  
Telephone Company d/b/a Ameritech )  
Illinois, And Ameritech Illinois )  
Metro, Inc. )  
)  
Joint Application For Approval Of )  
The Reorganization Of Illinois Bell )  
Telephone Company d/b/a Ameritech )  
Illinois, And The Reorganization Of )  
Ameritech Illinois Metro, Inc. In )  
Accordance With Section 7-204 Of )  
The Public Utilities Act And For All )  
Other Appropriate Relief. )

**DIRECT TESTIMONY ON REOPENING**

Of

**DON S. SAMUELSON**

On behalf of

**DSSA**

And the Neighborhood Learning Networks

Peter V. Baugher  
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312 West Randolph Street  
Chicago, Illinois 60606  
(312) 701-9300

Attorneys for Intervenors Neighborhood  
Learning Networks, Inc. and DSSA  
July 6, 1999

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STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Federal Communications Commission  
Office of Secretary

SBC Communications, Inc., SBC	)	
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	)	
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The Public Utilities Act And For All	)	
Other Appropriate Relief.	)	

**DIRECT TESTIMONY ON REOPENING  
OF DON S. SAMUELSON**

**INTRODUCTION**

**Q. What is your name and business address?**

A. My name is Don S. Samuelson, DSSA, 310 Milwaukee Avenue, Lake Villa,  
Illinois 60046.

**Q. By whom are you employed?**

A. I am the owner of DSSA, an owner and management agent of government  
assisted housing development.

**Q. What is the Neighborhood Learning Network?**

A. It is a non-profit association of community technology centers in West Town, to develop and operate a neighborhood learning, employment and business incubation network.

**Q. When did you intervene in this proceeding?**

A. I intervened immediately after I learned that the period for the introduction of direct testimony was close, in December of 1998.

**Q. How have you previously participated in these proceedings?**

A. I submitted Rebuttal Testimony in December, participated in cross examination in late January, produced briefs during February and March, and provided oral argument in April.

#### PURPOSE OF TESTIMONY

**Q. What is the purpose of your testimony?**

A. My purpose is to assist the “disadvantaged” and “underserved” Illinois markets in using advanced telecommunication services and the Internet through the establishment and funding of an Illinois Community Technology Fund.

**Q. What consumer groups make up these disadvantaged markets?**

A. These groups include: the poor, the elderly, the physically handicapped, language handicapped, immigrants, those without phone service and certain categories of inner city and rural markets. Small businesses in areas where these groups are concentrated are also often disadvantaged.

**Q. Is there precedent in merger proceedings of this type to develop programs to provide special relief to these markets?**

A. Yes. Special relief programs for “disadvantaged” and “underserved” markets were developed by the PUC in California as part of the 1997 SBC/Pac Tel merger. More recently, the Ohio PUC developed a similar series of programs as a condition of the settlement agreement in the SBC/Ameritech merger in Ohio.

**Q. Were these programs in California and Ohio “charitable” contributions by the utility companies?**

A. No. They were programs designed to educate and prepare potential markets for telecommunication services to become future customers, and thereby to encourage economic and social development.

#### THE DIGITAL DIVIDE

**Q. What is meant by the term, the “digital divide”?**

A. The digital divide is the disparity that exists in access to modern telecommunication between the affluent and educated, and less affluent and well trained. More simply, it is the disparity in access to and understanding and use of the Internet.

**Q. Is there a “digital divide” in the Chicago area and Illinois?**

A. Yes. There is a “digital divide” in the Chicago metropolitan area and the State of Illinois. At the basic phone service level, almost 10% of the housing units in Illinois are without phone service. As of March, 1999, Illinois was the sixth from the bottom among the 50 states. It had the greatest percentage change in the country from 1983 to 1999, losing 3.8% from 95% to 91.2%.

With respect to the Internet, residents of Illinois with college degrees and in the upper third of incomes – the technology “haves” – are ten times more likely to use computers, modems and the internet than those residents without a high school degree and in the lower third of incomes – the technology “have nots” or “not yet.” This disparity in access to modern telecommunication services and the Internet is even more severe when considering the places where these various groups have access to telecommunication services. The “haves” use computers, modems and the Internet in their homes. The “have nots” are dependent for access on public locations, like schools and libraries. As a result the **effective disparity** in use and access between these groups is on the order of 100 – 1. See the accompanying testimony and tables of sociologist David Garth Taylor, Executive Director of the Metro Chicago Information Center, July 6, 1999 attached as Exhibit A to this testimony.

**Q. Why is the fact of a “digital divide” important.**

**A.** First, it represents a restriction on the productivity of the Chicago and Illinois workforce. In today’s marketplace, workers need technology skills and an orientation to lifelong learning to function productively. Businesses need skilled workers. Developing and maintaining relevant work skills is increasingly dependent on one’s ability to access and use the information and communication capacities of the Internet and advanced telecommunication services. It is important to the economic future of the State of Illinois that everyone has access to these services, understands their importance to their

own well being, and knows how to use them. In today's economy: Worker Skills + Technology = Productivity, which equals Prosperity.

Second, it is a matter of equity. We are at a technology crossroads. Everyone should be given the opportunity to understand and use these new productivity tools. There is a gap. It is growing larger. Illinois needs an action program to move everyone toward the same starting line in using technology tools to advance their interests in the 21<sup>st</sup> Century.

**Q. Have other prominent and public minded groups in Illinois and around the country identified the closing of this “digital divide” as an important public policy? Can you provide some examples?**

A. Yes, there is an excellent report by the Metropolitan Planning Council entitled *Putting Our Minds Together, The Digital Network Infrastructure and Metropolitan Chicago*. The Report explains that schools, libraries, computer learning centers and community networks could all be vehicles to promote and advance computer and technology skills and capacities in all parts of the Chicago economy. It recommends that these new technologies be used for workforce development and training, developing workers with the skills to enable Chicago area businesses to compete in the 21<sup>st</sup> Century marketplace. In its discussion of the “digital divide,” the Report emphasizes the special effort needed to bring information and communication technology (“ICT”) capacities and skills to the disadvantaged populations and areas of the region:

There is considerable danger that certain segments of Metropolitan Chicago's population...will be excluded from the advancements afforded by the digital network infrastructure. Much of this is tied to

financial resources, as some families, schools, and communities are unable to afford or do not understand the imperative of information technology. Yet, the price for leaving some behind is too high.

Metropolitan Planning Council, *The Digital Network Infrastructure and Metropolitan Chicago* p. 5 (1998) ("The MPC Report")(attached as exhibit #1 to the Rebuttal Testimony of Don S. Samuelson on behalf of DSSA and the Neighborhood Learning Networks before the Illinois Commerce Commission, December 18, 1998), also attached as Exhibit B to this testimony.

The Report continues:

An organized plan is needed among community leaders, religious and neighborhood organizations, state and local policy8 makers, regional planners and educators, business and industry to assure that the Metropolitan region is not characterized by a "digital divide." The health of our social, economic, and political fabric is dependent on ubiquitous access to the information, resources, services, skills, and opportunities that are being made possible by information and the digital network structure.

The Metropolitan Planning Council also observes with special emphasis that:

Above all, the concern is for those who do **not** have basic computer skills. An entire segment of our society has been passed by, either by choice, or more often, inadequate exposure in the schools. To reach those who lack today's skills will require innovative new means and up-to-date equipment through community centers, libraries, religious and other organizations that may not yet be reached by the digital network infrastructure, as well as the more traditional institutions.

Like basic telephone services in the past, access to personal computers and the Internet is now becoming the defining line between technology "haves" and "have-nots." The importance of bridging the digital divide was recently signaled by the National Telecommunications and Information Administration when it wrote that:



The concept of “universal service” in U.S. telecommunications policy has traditionally referred to the goal that all Americans should have access to affordable telephone service. As America has increasingly become an information society, however, that concept has broadened to include access to information services. Now that a considerable portion of today’s business, communication, and research take place on the internet, access to the computers and networks may be as important as access to traditional telephone services.

National Telecommunications and Information Administration, *Falling*

*Through the Net II: New Data on the Digital Divide*,

<http://www.ntia.doc.gov/ntiahome/net2/falling.html>.

- Q. Are there any special considerations in developing remedies for this problem?**
- A. Yes. It is in public institutions – rather than the home or workplace – that people with the lowest third of incomes, as well as other disadvantaged markets, are most dependent upon technology access and training. These groups are unlikely to have access to the Internet at home or at work. Their access is at schools, libraries and other neighborhood locations. These are the institutions that must be supported and strengthened if we are going to be serious and effective in providing technology equity to the residents of Illinois. Support for these institutions and programs is at the heart of our recommendation to create an Illinois Community Technology Fund.
- Q. Are existing programs well understood by the markets they are designed to serve?**
- A. That is a problem, and it is getting worse as product and service options become more varied. At page 17 of a “Phoneless Household Research Study”

prepared for Ameritech, Inc. by Strategic Marketing & Research, Inc. in August of 1996, the study stated: "Among those without telephone service, very few report any awareness of government or telephone company-sponsored programs designed to make it easier for low income households to obtain telephone service." The study at page 108 went on to recommend that policies need to be developed "to address the need to improve eligible customers knowledge of available programs to make service less expensive." Today, the percentage of Illinois residents without phone service is going up, and there is a growing "digital divide" based on education and income with respect to awareness and use of the Internet and advanced telecom services.

#### THE CALIFORNIA EXPERIENCE

- Q. Is there value in reviewing the way in which the California PUC provided relief for "disadvantaged" markets as part of the Pac Tel/SBC merger in California?**
- A. Yes. First, California, like Illinois, had a utility merger statute that required its approval as a condition of the merger. Second, California, again like Illinois, had a provision in its merger statute that required that merger savings and other benefits be calculated and allocated between shareholders and ratepayers. Finally, a "California Community Partnership" was established that provided numerous activities to support customer service, underserved markets and technology initiatives in local communities, including:

1. the formation of a \$50 million Community Technology Fund to promote access to telecommunications services in underserved communities.
2. the creation of a challenge grant under which Pac Tel was to contribute an additional \$3 million annually for nine years (\$27 million total) after the merger in amounts equal to those offered by other telecom providers.
3. the formation of a "Think Tank" to research interests of underserved communities and the general public to create a competitive environment, to be funded by Pac Tel at the rate of \$200,000 a year for five years (\$1 million).
4. the contribution of \$100,000 a year for seven years toward the formation of a Universal Service Task Force to develop methods to promote universal service by working with community groups.
5. a \$1 million per year increase in corporate giving, continuation of multilingual customer service programs, a commitment to minority employment, promotion and contracting; and commitments to create four new Pac Tel/SBC subsidiaries in California

See Pacific Telesis' information package on its California Partnership's Agreement attached as Exhibit C.

**Q. How did the California PUC resolve the "savings" issue?**

A. The California PUC made the determination on the basis of conflicting evidence before it in the record. There were differences in estimates between

the parties ranging from almost zero to several billion dollars. Eventually, a number of resulting in a present value of about \$500 million was determined, roughly half of which went to shareholders and half of which went to ratepayers. Of the ratepayer portion of the savings, about 75% were distributed in surcredits, and 25% were used create the various programs under the terms of the California Community Partnership.

**Q. What was the economic impact of the surcredits on the phone bills of the various California consumer markets?**

A. They have been quite small, and apparently, from communications with SBC impossible to determine with any precision. They are particularly negligible when compared to the dramatic increase in costs for “collect,” “interrupt” and other often-used but unregulated services. While it was impressive to say at press conferences that California consumers were to receive \$300 million in benefits from the merger savings, in practice, amounts paid as surcredits have had virtually no effect on the California economy and have done nothing to help disadvantaged consumers benefit from the merger. As Pacif Telesis’ announcement of the California Community Partnership said, quoting the chairman of the state’s Black Chamber of Commerce:

Minorities don’t want trivial 20-cent refunds; we want an empowerment and economic development fund, such as the \$50 million education and technology fund proposed by Pacific Bell and community groups.

**Q. What do you see as the real value of the programs developed out of the California Community Partnership?**

**A.** The real value will be in the education of consumers concerning the purchase and use of telecommunication services. Funded by telecommunications enhancement grants to be distributed statewide on a competitive basis at regular time periods, the neighborhood and non-profit community will be a significant force in educating their disadvantaged constituencies as they prepare their applications and seek letters of support. This is the education and aggregation of a market, the “not yet” users of advanced telecommunication services. When an informed marketplace is combined with multiple service providers – through the opening of the local marketplace through compliance with the Section 271 checklist or the other discounts and services agreed upon in the FCC approval of the SBC/Ameritech merger – all residential markets, including those that are presently “disadvantaged” or “underserved” will begin to receive the benefits of a competitive telecommunications marketplace.

#### **THE OHIO EXPERIENCE**

**Q. What can be learned from the Ohio experience in their SBC/Ameritech merger program about the funding of consumer-oriented programs?**

**A.** SBC/Ameritech created a Consumer Education Fund, a Consumer Technology Fund, and pledged support for neighborhood computer learning centers. Without a savings provision in the state merger statute in Ohio, SBC/Ameritech provided minimal financial commitments for these programs,

comparable in scale to its charitable contributions. SBC/Ameritech evidently carried this “charity” approach to disadvantaged markets, developed in the Ohio proceedings, to Illinois. In the Direct Testimony on Re-Opening by James S. Kahan, Ameritech/SBC committed to \$3 million for a Consumer Education Fund, \$3 million to a Community Technology Fund, and \$1,450,000 “to support a Community Technology Center.” This represents a commitment of \$7.5 million over three years to support **all** the remedial needs of “disadvantaged” consumer markets in Illinois. This disappointingly small number should be compared to the \$82 million commitment made to disadvantaged markets in California, as a result of the savings provision in the California merger statute, AND even to the **\$12 million commitment** made by SBC/Ameritech for **philanthropic and community contributions** in Illinois over three years. Fortunately, in Illinois there is a savings provision in the merger statute. A decision will have to be made by the Commission on the amount and allocation of merger savings, not on the charitable instincts of SBC/Ameritech management.

**Q. What can be learned about the Ohio package of programs?**

A. Ohio created the right package of programs to be of real use to disadvantaged consumer markets. There were useful programs developed in Ohio related to anti-redlining and universal service support programs, incentives to insure increased competition in access to unbundled network elements and other services, and a consumer education fund to remedy the problem of economically disadvantaged customers who want telecom services, don’t know

about them, don't have a good sense of their alternatives and don't have the information to make informed purchasing decisions in their own interests. The programs were simply funded at wholly inadequate levels.

**Q. Were there other useful provisions in the Ohio settlement?**

A. Yes, there were provisions in the Ohio settlement relating to a substantially improved universal service program and a commitment to provide advanced/ADSL services to neighborhoods throughout Ohio on a non-discriminatory basis.

#### THE ILLINOIS COMMUNITY TECHNOLOGY FUND

**Q. What needs to be done by the Commission to assure that “disadvantaged” and “underserved” markets in Illinois are not adversely affected, but instead benefit from the merger of Ameritech and SBC?**

A. There are a merger conditions presently being considered by the FCC and ICC which could result in meaningful incentives for additional suppliers of telecommunication services for the various residential and small business markets in Illinois. The Ameritech infrastructure will be available to competitors. There will be discounts available to suppliers to various market segments. There is an obligation that SBC/Ameritech implement its National/Local strategy, which should result in some level of retaliation by out-of-state suppliers in Illinois. However, all of the remedies under consideration to date relate only to the stimulation of “supply.”

The stimulation of “demand” is equally important in assuring that “disadvantaged” markets benefit from the advantages of a competitive telecommunications marketplace in Illinois. For unexplainable reasons, Illinois is among the worst states in the country in terms of basic phone service. There is a dramatic disparity in the use of the Internet and advanced telecommunication services among the various income and education levels in Illinois. Quite simply, underserved and “disadvantaged” customer markets need to be made aware of the existence, availability and relevance of the Internet and advanced telecommunication services. These services are not well understood in disadvantaged markets. They are not thought to be available. They are not widely used. There is threshold need to create and aggregate demand, to inform the underserved markets of the benefits, to them, of the Internet and other telecommunication services. **The Commission should condition its approval of the merger on the creation of a set of structural initiatives designed to help disadvantaged and underserved markets, rather than to let them continue to fall behind as current financial objectives favor the development of telecommunication services for large corporate and upper income markets.**

**Q. What specific programs to educate markets and create informed demand do you recommend as conditions to the ICC approval of this merger?**

A. We recommend four major program initiatives as parts of an Illinois Community Technology Fund: (1) educating and aggregating the various “disadvantaged” markets to the benefits of the Internet and other advanced telecommunication



services; (2) funding public technology initiatives, of the type currently being supported by the TIIAP program administered by the U.S. Department of Commerce; (3) funding community technology centers, modeled after Technology Challenge Grants and community technology programs currently being administered by the U.S. Department of Education; and (4) creating Illinois companies to implement the National/Local strategy, to develop advanced telecom services and to commercialize public technology initiatives. Copies of the Department of Commerce's TIIAP guidelines, and the Department of Education's Community Technology Center program are attached respectively as Exhibits F and G.

**Q. How will preparing and aggregating the market be accomplished?**

A. SBC/Ameritech have proposed the development of a three year, \$3 million Consumer Education Fund ("CEF"), modeled after Ohio, that is to be administered by a CEF Committee made up of representatives from Ameritech, the ICC staff and other entities appointed by the Commission. Property funded, the CEF is an excellent start. This should be independent of, and added to, whatever marketing expenditures SBC/Ameritech plans to make in the normal course of their business operations. It should be something of an "affirmative action" initiative, to supplement the normal level and types of marketing initiatives that Ameritech would be making to residential and small business markets. "Best practices" need to be developed that are oriented to the needs of consumers, not to maximize revenue for SBC/Ameritech.

The first of the program functions would be to do market research into the current conditions of the various “disadvantaged” markets served by SBC/Ameritech. Who is without phone service? What customers are spending excessive amounts on “extra” services like collect and interrupt calls, that are disproportionate to their incomes? What needs to be done to restore credit worthiness, and phone service, to those customers whose service was discontinued for failure to make payments in a timely manner? The first step is to determine current conditions and needs, and then to help the underserved markets understand the benefits of learning to use, and using, telecom products and services, in ways that are most cost-effective **to them**. A study of this type was developed by Strategic Marketing & Research, Inc. of Indianapolis for Ameritech in August of 1996 examining the circumstances of “phoneless households.” A similar study needs to be commissioned today to determine the nature of the present “digital divide” in Illinois and the effect of the proposed merger on “disadvantaged” and underserved markets.

There are two additional parts to this initiative. The first **is** to gather experiences from around the country and world about the ways in which “disadvantaged” consumer groups have learned to use telecommunication products and services to make real – as opposed to illusory and irrelevant - differences in their lives. The goal is to gather, organize and explain the experiences of others in using advanced telecom products and services so that “everyone” in Illinois can see that someone very much like them has invested time in developing valuable telecommunication capacities and skills.

The second part is the creation of communication initiatives and pieces so that the benefits of advanced telecommunication skills can be made relevant and interesting to the intended audiences. This will involve, for example, print and electronic media, cable, the briefing of community based organizations, forums, billboards, public service announcements, editorials, a bookmobile-like “cyber bus,” web sites, email and listservs. The goal is to “get out the word” in the most efficient, professional and cost-effective manner.

It is important to consider this Consumer Education Fund as a supplement to the normal sales and marketing efforts of Ameritech/SBC. It is to help “disadvantaged” markets become informed and smart consumers of telecommunication services. The objective is to create “educated” demand.

**Q. What is the first purpose of the Community Technology Fund (“CTF”)?**  
**Is there an existing model?**

**A.** The model is the Telecommunications and Information Infrastructure Assistance Program (“TIIAP”) administered by the U.S. Department of Commerce. The TIIAP program was designed to promote the development, widespread availability, and use of advanced telecommunications and information technologies to serve the public interest:

TIIAP will support projects that improve the quality of, and the public’s access to, cultural, educational, and training resources; reduce the cost, improve the quality, and/or increase the accessibility of health care and public health services; promote responsive public safety services; improve the effectiveness and efficiency of government and public services; and foster communication, resource-sharing, and economic development within communities, both rural and urban.

*The National Information Infrastructure; Agenda for Action*, 58 Fed. Reg. 49,025 (September 21, 1993). See Exhibit F for current TIIAP guidelines. In effect, the objective is to create a TIIAP-like program in Illinois that can create innovative and replicable uses of public technology initiatives that can function as templates and models to be used for workforce development and other economic development objectives in other underserved communities throughout the Ameritech and SBC service areas. While the demonstrations will take place in Illinois, their applications could serve a significantly larger population base and area, including other states in the Ameritech service area.

TIIAP emphasizes the application of technology to meet people's needs, and not simply technology as an end in itself. In 1999, the emphasis was on community networking; education, culture and lifelong learning; health, public safety and public services. The goal of the program is to reach out to all members of a community and catalyze partnerships to help erase the distinction between information "haves" and "have-nots." The program supports demonstration projects that can serve as models for using information infrastructure in the public and non-profit sectors and thereby contribute to the provision of the benefits of telecommunication services to all Americans, especially the underserved. "Underserved" refers to individuals and communities that are subject to barriers that limit or prevent their access to the benefits of information infrastructure technologies and services. In terms of information infrastructure, these barriers may be technological, geographic, economic, physical, linguistic, or cultural.

Assuming that the average CTF grant was for \$250,000 over three years, and the same type of one-to-one matching requirement used by TIIAP, an allocation of \$6 million a year for three years would enable 24 projects a year to be funded (12 in each of the twice yearly funding cycles) that, with matching funds, would result in 24 creative, replicable half million dollar public technology initiatives, that could function as models for similar programs to be created throughout the SBC/Ameritech service area. Since all of these projects will be technology-based, it will be possible to replicate them at a small percentage of the costs associated with the original demonstration.

The TIIAP program is administered by a small staff, relying heavily on expert panels to award grants. The TIIAP staff has been in Chicago recently, as part of the Community Technology Center Network ("CTCNet") and Association for Community Networking ("AFCN") joint conference in June. It would be relatively easy to adapt the existing TIIAP program to the needs of the CTF in Illinois so that the program could be up and operational early in 2000, with the first cycle of applications received in February of 2000 and awards made in May of 2000. The U.S. Department of Commerce's TIIAP program is described in more detail in their most recent notice of availability of funds which is attached as Exhibit F.

**Q. What is the second purpose of the Community Technology Fund? Is there an existing model?**

A. The second function of the CTF is to provide support for the creation of neighborhood based community technology centers to provide education,

training and access to computers, the Internet and advanced telecommunication services in “disadvantaged” and underserved communities. This is a program with which both Ameritech and SBC have prior experience.. Ameritech has already set up such a program in Ohio (and SBC has done so in Missouri). The Ohio program was begun in 1995 as part of a rate charge settlement decision. See implementation report attached as Exhibit E. It created multi-year funding for a series of community technology centers around the state. The program has worked well. As part of the recent SBC/Ameritech settlement negotiations in Ohio, SBC agreed to provide additional financial support for this program. SBC has been involved in the development of a similar community technology center program in Missouri. These centers are in inner city and disadvantaged markets, and are connected to colleges and other training locations. SBC executives regard them as successful.

A significant opportunity is immediately available. The Chicago Public Schools were awarded a Department of Education Challenge Grant in September of 1997 from the U.S. Department of Education. The award was made for the proposal that two Chicago neighborhoods (West Town and Grand Boulevard) would illustrate how inner city neighborhoods could create skilled residents in “smart neighborhoods” by having a neighborhood technology plan, programs to teach teachers to use and to teach technology and a “satellite system” of computer learning centers in HUD and public housing, churches, settlement houses, boys and girls clubs, senior centers, parks, libraries and other community resource centers. Computer access and training would be

everywhere in the community, facilities open in the afternoons, evenings and weekends when schools were closed. The objectives was to create “neighborhood learning, employment and business incubation networks.” See Chicago Neighborhood Learning Network project description attached as Exhibit H.

The program’s objective was to involve parents in the training of their children, to move education beyond school walls and limited time periods into the community and to connect schooling and education with lifelong learning and workforce development efforts. The private sector and CPS were to provide \$10 million in funds to match the \$6M in funds provided by DOE. The proposal assumed that there was a need for a public/private partnership to use federal programs, along with investments by the private sector, to illustrate how technology-informed neighborhoods could be developed throughout the City, and by example, throughout the region and the State. **A 1999 “challenge” contribution of \$5 million by SBC/Ameritech, to be matched by other Illinois technology companies, could generate significant movement in this project immediately.**

While Ameritech and SBC both already have experiences with community technology centers, these experiences should be carefully reviewed, along with the experiences of the affiliates in the Community Technology Center Network (“CTCNet”) funded by NSF and the 400 computer learning centers created in HUD housing under the HUD Neighborhood Networks program. There is a fundamental problem regarding the sustainability of these

essentially “demonstration” efforts. They were developed out of “grant” funds, They need to develop instructional programs related to adult education, welfare-to-work and after-school programs that have permanent government funding streams associated with them.

The best model for this program is the Community Technology Center program that is administered by the U.S. Department of Education. A description of the first notice of fund availability under this program is attached as Exhibit H. The program is a competitively based matching program, designed to provide access to computers and information technology for community residents in the following areas: a) after-school activities for children; b) adult education and family literacy; c) career development and family literacy; d) support for small business and electronic commerce; and e) home access through the promotion of web-based television, network PCs and other computing technologies.

The first year of DOE funding was for \$10 million. This amount has been increased to \$65 million for the second year of this program. The individual grants are intended to fund three year programs, averaging \$60,000 a year in program funding, for a total of \$180,000, again with the requirement of matching funds. Assuming an Illinois version of this program was funded at the rate of \$12 million a year, for three years, that would result in the creation of 50-60 community technology centers a year, over three years. These community technology centers selected for funding would create replicable



models that could be adapted to the needs of other center sponsors throughout the Ameritech and SBC service regions.

#### LOCATION OF NEW SBC SUBSIDIARIES IN ILLINOIS.

**Q. In California, four Pac Tel/SBC subsidiaries were created as a condition of the merger approval to assure that meaningful jobs would not be lost in California as a result of the merger. Are there any similar initiatives that should be considered in Illinois?**

**A.** Yes, there are three subsidiaries of the merged companies that should be sited in Illinois. The **first** is the headquarters of the new National/Local strategy. SBC/Ameritech promise to compete for residential and business customers in 30 new markets outside their traditional operating regions, in five verifiable steps, within 30 months, or to pay penalties of \$40 million per missed step. The National/Local strategy that was advanced by SBC/Ameritech as the business and competition-promoting rationale for the merger will be implemented by this business unit. It would make sense to have this business unit headquartered in Chicago, for reasons of centrality, ease of access, the availability of a skilled workforce and to assure that Illinois is an important part of the future of the merged companies, not just a source of capital and talent with which to compete in other markets.

The **second** is the creation of the separate affiliate for advanced services proposed by the FCC as a condition to the merger:

SBC-Ameritech will create a new separate affiliate to provide advanced services, such as ADSL, xDSL and frame relay, in the SBC-Ameritech

region. In providing services to the affiliate, the SBC-Ameritech telephone companies will treat the affiliate as they would any competitor. In addition, the combined company will offer temporary loop discounts for competitive local exchange carriers (CLECs) which provide data transmission services pending the development of new operations support services interfaces for advanced services. The separate affiliate will operate independently from the telephone company, except that operation, installation and maintenance functions may be performed by telephone company personnel on a non-discriminatory basis, and both the affiliate and telephone company may market the other's services, with the affiliate using the telephone company's brand name on an exclusive basis.

It is the Internet and advanced telecommunication service sectors where the greatest industry growth will be incurring in the future. Like with the National/Local strategy subsidiary, it is important that Illinois can benefit from some of the growth areas of the merged companies, to assure that the Illinois economy does not suffer from the loss to Texas-based SBC of a strong and independent Ameritech.

The **third** subsidiary would involve the development of a company to commercialize the opportunities to develop products and services for "disadvantaged" and underserved markets. These represent important markets for the future. The market research and development laboratory for these programs will be generated by the programs funded by the CTF. It is appropriate that the business entity charged with the responsibility for developing commerce out of these efforts be headquartered in Chicago.

## SAVINGS

**Q. Do you have any thoughts on the current status of the "savings" discussion?**

A. Yes, I do. There has been no independent verification of the underlying economic facts and assumptions that Dave Gebhardt of Ameritech used in arriving at his savings calculations, or in his assumptions regarding the costs that would have to be incurred to achieve the projected savings. SBC/Ameritech has an obvious interest in making low assumptions on savings resulting from the merger, high assumptions on the costs of generating the savings, and low assumptions on the length of time over which the savings would occur. On one of the most critical public interest issues in this merger – the determination of the amount and the allocation of merger savings – we have only the self-interest positions of Ameritech/SBC to consider. The ICC Chairman was clearly concerned about the nature and validity of the process used by Ameritech/SBC in calculating savings in his posing of hypothetical fact situations for Ameritech/SBC and the Intervenors. Unfortunately, these questions revealed the difficulty of the calculation, not the accuracy of the answer.

**Q. Can you expand on your point?**

A. Yes. Let me suggest three simple points. First, if you accept the savings projection of \$1.4 billion per year made by SBC Chairman Whitacre in his April Business Week cover story, and you apply to it the 8.75% associated with Illinois, regulated revenue, the result is approximately \$100 million a year in savings in Illinois. Second, in California, the time period over which the merger savings would occur in California was determined to be 5.6 years, not the three years recommended by SBC/Ameritech in this ICC proceeding.

Finally, the assumption is made by Ameritech/SBC that the benefits of a competitive marketplace will occur in three years, that three years is therefore the appropriate time for the calculation of savings, and that the current projected annual savings of \$1.4 million will be passed on to consumers after three years in the form of lower rates occasioned by a competitive marketplace. The trouble with this analysis is that the “marketplace” is made up of a number of separate marketplaces. It is arguable that the marketplace is sufficiently competitive today for the business of large corporations, and perhaps even the provision of long distance services. But what about the circumstances of the small business, the average residential customer and the “disadvantaged” residential customer? Is it clear, or even likely, that they will be realizing the benefits of a multiple-supplier, competitive marketplace in three years? Is there any evidence in the record that this will be the case?

**No evidence has been introduced in the record as to the circumstances of these markets today, or of the likely impact of the merger on services, competition or rates in the future.** There has been no significant competition for their business since TA '96 was passed three years ago. It seems highly unlikely that a competitive marketplace will occur for the business of these markets at the end of the three years proposed by Ameritech/SBC for the calculation of savings. It is Ameritech/SBC's burden to prove the various elements of their case, including the existence of a multi-supplier marketplace for the achievement of a competitive marketplace for the various customer markets they serve. This burden has not yet been met.

**Q. Do you see how the “savings” issue can be resolved with any degree of certainty and precision?**

A. No. Upon reflection, I can see how the California PUC had to rely upon its own computations on this issue. Given the almost impossible task of identifying, determining and tracing possible merger savings, and the difficulty of determining the time period over which the various components of savings will be realized before the achievement of a competitive marketplace for the various customer markets served by SBC/Ameritech, I think it is inevitable that the Commission will have to arrive at an order of magnitude estimate. The starting point for that estimate is \$1.4 billion in annual savings over the Ameritech service area, with no certain end date when marketplace forces will distribute the savings to customers in the form of lower rates, particularly as to the residential, “disadvantaged” and small business markets.

**Q. Do you have any thoughts on what the savings determination should be?**

A. Yes. I think that net savings of \$100 million a year for five years would be a reasonable solution. It is close to the number that would result from multiplying the \$1.4 billion of overall Ameritech savings by the 8.75% reflecting the Illinois/regulated percentage of overall revenue. It is also comparable to the California numbers. Again, like California, the greater of 25% of that number, or \$20 million a year, should be allocated to an Illinois Community Technology Fund, to fund the supplemental Consumer Education, Community Technology and Community Technology Center programs discussed earlier in my testimony.

## SOME ADDITIONAL EQUITY CONSIDERATIONS

**Q. Ameritech/SBC state at page 25 of their Exceptions Brief that “none of the proponents of savings allocations to ratepayers presented any evidence or arguments that would provide a basis ... for allocating any of the merger savings ... to ratepayers.” Would you like to comment on this statement?**

**A.** Yes. There are two reasons for allocating merger savings to customers. First, for most of Ameritech’s long history, it was a regulated monopoly, a “rate-of-return” company. A great deal of its current marketplace value – the \$13.2 billion premium to be paid by SBC for Ameritech stock – was created during times when its returns were almost guaranteed. Its current value was not created out of successful competition, superior management, creativity or entrepreneurial skill. Therefore, it is simply “fair” to provide a portion of the value of the merger to ratepayers. Under the circumstances, the question is not whether ANY of the merger savings ought to be allocated to ratepayers. Rather, it is why ALL of the premium should be allocated to the shareholders. The modern Ameritech was, in effect, a joint venture between shareholders seeking predictable returns and ratepayers willing to accept services from a monopoly in exchange for regulatory control over prices.

**Q. Is there a second reason to allocate savings to ratepayers?**

**A.** Yes. There will be a “lag” between the time that savings are realized by SBC/Ameritech and the time that ratepayers realize the combination of lower prices and superior service that will result from the new unregulated marketplace. There will be some period of time when rates will be in place,

based upon earlier assumed costs that will be modified by the merger, and SBC/Ameritech will be experiencing merger savings. The merger savings should be used to compensate those ratepayers who will not be experiencing the benefits of competition during this time period.

#### ADMINISTRATION AND GOVERNANCE

**Q. What are your thoughts on the administration and governance of the Illinois Community Technology Fund?**

**A.** First, I think the CTF should be governed by a nine member board concerned about “disadvantaged” and underserved markets in Illinois, made up of appointments made by the community interest Intervenors in this proceeding (three appointments), the SBC/Ameritech interests funding this program (three appointments) and the Illinois Commerce Commission (three appointments). Second, some percentage limit should be made on the amount of money to be used for the administration of the funds, so that no less than 90% of the funds are used for programs as opposed to administration and overhead. Third, careful review, including site visits when appropriate, should be made of the TIIAP and DOE Community Technology Center programs during the remainder of 1999 so that they can be used as “best practices” in the final design of the Illinois programs. Fourth, there should be a review of the California and Missouri programs with which SBC has had prior experience, as well as the Ohio programs designed and operated by Ameritech so that the benefits of these

experiences can be used in the final design of the Illinois programs and procedures.

Finally, the specific provisions and language of the California Community Partnership Agreement should be used as the starting point for the creation of the Illinois Community Technology Fund. The Organizational Charter for California is attached as Exhibit D.



## SCHEDULE AND SYNOPSIS OF EXHIBITS

- A. **David Garth Taylor Testimony** on the disparity in access and use of the Internet which has created a Digital Divide in Chicago, the Chicago Metropolitan Region and the State of Illinois.
- B. **The Metropolitan Planning Council Report**, "Putting Our Minds Together, The Digital Network Infrastructure and Metropolitan Chicago," calling for an aggressive effort to close the digital divide, as a matter of regional economy policy.
- C. **California Partnership Agreement Information Package** outlining the history, purpose and structure of the California program to serve "disadvantaged" and "underserved" communities in California which resulted in the creation of a \$50 million community technology fund as part of the 1998 Pac Tel/SBC merger in California.
- D. **California Community Partnership Agreement Organizational Charter** outlining the makeup of the Board, governance and a summary of programs and procedures.
- E. **Annual Ohio Report on Implementation of the Community Computer Center Commitment** made by Ameritech as a settlement to an earlier rate case in Ohio. Describes functions and accomplishments of program.
- F. **U.S. Department of Commerce, Telecommunications and Information Infrastructure Assistance Program (TIIAP)** outlining its March, 1999 program to support public technology initiatives, its purposes and procedures.
- G. **U.S. Department of Education, Community Technology Center Program** The June, 1999 request for proposals to support the development and operation of community technology centers in disadvantaged areas.
- H. **Summary of the Chicago Neighborhood Learning Network Project** to involve the community in education and lifelong learning won by the Chicago Public Schools in 1997 as part of the national Department of Education Technology Challenge Grant Program.